

**VERMONT PENSION INVESTMENT COMMITTEE**  
**March 27, 2012**

**VPIC Members Present:**

STEPHEN RAUH, CHAIR

BETH PEARCE, VICE-CHAIR, Vermont State Treasurer

VAUGHN ALTEMUS, Governor's Delegate, term expiring June 30, 2014

DICK JOHANNESSEN, Governor's Delegate, term expiring June 30, 2014

STEVEN JEFFREY, VMERS Representative, term expiring June 30, 2014

**VPIC Member(s) Absent:**

JOSEPH MACKEY, VSTRS Representative, term expiring June 30, 2013

ROBERT HOOPER, VSERS Representative, term expiring June 30, 2012

**VPIC Alternate Members Present:**

KAREN PAUL, *Alternate* Governor's Delegate, term expiring June 30, 2012

KEVIN GAFFNEY, VSERS *Alternate*, term expiring June 30, 2012

**VPIC Alternate Member(s) Absent:**

THOMAS MCCONNELL, VSTRS *Alternate*, term expiring June 30, 2013

THOMAS GOLONKA, VMERS *Alternate*, term expiring June 30, 2012

**Also attending:**

Stephen Wisloski, Vermont State Deputy Treasurer

Matt Considine, CFA, Director of Investments

Katie George, Investments Manager

Bill Griffin, Attorney General's Office

Linda Deliduka, VSTRS Board Alternate

Richard M. Charlton, Christopher Levell and Doug Moseley, NEPC LLC

Monica Chiren, Clerk

**CALL TO ORDER:**

The Chair, Mr. Rauh, called the Tuesday, March 27, 2012 meeting to order at 8:35 a.m., which was held in the 4<sup>th</sup> Floor Conference Room, 109 State Street, Montpelier, VT.

**ITEM 1:      **Agenda Approval, Announcements, and Minutes of February 28, 2012  
Regular Meeting****

The Chairperson, Mr. Rauh briefly reviewed the agenda. Mr. Altemus indicated he would be interested in attending the June 11<sup>th</sup> conference being put on by PIMCO. Mr. Wisloski indicated the Treasurer's staff would assist him in making those arrangements.

**On a motion by Mr. Jeffrey, seconded by Mr. Altemus, the Committee unanimously approved the minutes of the February 28, 2012, Regular Meeting, as submitted.**

**ITEM 2:      Director of Investments Report**

- **Review February Flash Report**

Mr. Considine indicated that the Post Advisory investment guidelines have been amended pursuant to the motion made last month, which was to allow bank debt with a maximum exposure of 20% and non-USD securities with a maximum exposure of 10%.

(Mr. Griffin, Ms. Deliduka, and Mr. Johannesen arrived during this agenda item.)

Mr. Considine indicated that Deutsche Bank is in negotiations to sell the asset management division, including RREEF to Guggenheim. Mr. Considine and Mr. Moseley indicated they would research what will happen with the capital that Deutsche Bank put into RREEF.

Mr. Considine indicated recent organizational changes at Allianz and Grosvenor had no impact on the investment products.

Mr. Considine indicated, pursuant to the recent call with Schroders, that they infrequently have capacity in their commodities strategy for additional funds, and when that happens they contact clients who have expressed an interest in increasing their holdings. Mr. Considine indicated he has indicated he would like to be made aware of those instances.

Mr. Considine indicated as of the close of market March 20, 2012 the Quality D Liquidity Pool net asset value (NAV) was \$1.0001, the Duration Pool NAV was \$0.9303 and the overall Quality D NAV was \$0.9947, unchanged from an NAV of \$0.9947 in the prior month. Mr. Considine indicated the Liquidity Pool's percentage remained at 92.3% of VPIC's invested amounts, and the Duration Pool remained at 7.7% compared to February. Mr. Considine indicated the "underwater" amount was at \$1.6 million. It was indicated the "breakeven" timeframe decreased to 11.7 months from 11.8 months previously. Mr. Considine reviewed the process for the Securities Lending portfolio liquidation with the Committee, and indicated the liquidation is still set for April 13<sup>th</sup> even though there is still work being done on the Investment Management Agreement and the Securities Lending Agreement Amendment.

Mr. Considine reviewed the assets under management document with the Committee.

Mr. Considine reviewed with the Committee the Portfolio asset allocation update. Mr. Considine shared with the Committee his discussion with Brandywine concerning the recent elimination of Brandywine as a VPIC manager.

In response to Mr. Altemus' inquiry, Mr. Considine indicated the move from State Street

to JP Morgan is proceeding with no issues. Mr. Considine provided the Committee an update on the contract implementation with JP Morgan.

Mr. Moseley reviewed the February 2012 flash report with the Committee. Mr. Moseley indicated he will work on a custom benchmark for the PIMCO Unconstrained in addition to the 3 Month LIBOR.

(Ms. Pearce arrived at this time.)

**ITEM 3:**      **Discussion Items/Updates**

- **Contract Updates**
- **Legislative Update**
- **Governance/Investment Guideline Sub-Committee Update**
- **iPad Project Update**
- **NEPC Manager Watch List Update**

Mr. Rauh indicated the Committee covered the contract updates in the prior agenda item.

Ms. Pearce provided the Committee with the legislative update indicating she expects them to complete their work by the end of April. Ms. Pearce briefly reviewed the bill for a state bank and Act 153 with the Committee.

Mr. Rauh indicated there would be one more meeting for the Governance/Investment Guideline Sub-Committee. Mr. Rauh indicated there will be a presentation at either the April or May Committee meeting.

Ms. George reviewed with the Committee her findings and recommendations relative to iPads. Ms. Pearce recommended that the Committee follow the State of Vermont Mobile Device Policy that is in the process of being approved. The Committee reviewed the logistics of having iPads at the Committee meetings. Mr. Rauh indicated he will put this item on the agenda for next month again for further discussion with the Committee.

Mr. Moseley indicated there were no managers on the watch list at this time.

**ITEM 4:**      **Asset Allocation and Portfolio Structure Review**

- **Implications of Granting Broad Asset Discretion to Investment Managers**
  - **Framework for understanding and presenting VPIC's asset allocation – strategic allocation and discretionary tactical exposures**
  - **Unbundling products versus preserving coherent strategies in asset allocation and risk budgeting**

- **Appropriate benchmarks for asset allocation modeling, policy and allocation indices, and investment manager performance evaluation**
- **Managing overall portfolio risk**
- **Unified versus Customized Asset Allocations for the Individual Pension Plans**
- **Private Equity Allocation**
- **Growth/Inflation 2x2 Matrix View of VPIC's Strategic Allocation**

NEPC reviewed with the Committee the *VPIC Asset Allocation & Portfolio Structure Review (Part II)* document. Mr. Moseley led the Committee in a discussion relative to VPIC's asset allocation. There was a discussion about possible Federal changes relative to public and private pension plans. Relative to GAA Mr. Jeffrey requested a chart that would indicate the maximum exposure for each. The Committee discussed how to show this information. There was a discussion concerning managers having tactical authority. NEPC reviewed with the Committee their model for diversified fixed income. NEPC reviewed with the Committee their current asset allocation versus their prior asset allocation.

(Ms. Pearce left the meeting briefly during this agenda item.)

There was a discussion about a private equity allocation and the possible opportunities available. NEPC reviewed their recommendations for the VPIC portfolio. There was a discussion concerning the process relative to implementing a private equity allocation.

**On a motion by Ms. Pearce, seconded by Mr. Jeffrey, the Committee unanimously approved to adopt Mix A to add a new private equity allocation with a 3% target to VPIC's portfolio and for NEPC to start the process to implement the change.**

The Committee discussed the Wellington article *Think Function, Not Form*. The Committee discussed the asset allocation for the individual pension plans and the possible changes.

(A luncheon recess was taken from 12:05 p.m. to 12:50 p.m.)

(Mr. Griffin, Mr. Wisloski, Mr. Gaffney, Mr. Charlton and Ms. Paul were not present for the afternoon session.)

The Committee further discussed the pros and cons of having a unified versus a customized asset allocation for the individual pension plans.

**On a motion by Mr. Johannesen, seconded by Mr. Altemus, the Committee unanimously approved to ratify the current process of having an unified asset allocation for the individual pension plans, unless and until future circumstances arise to necessitate another review of the asset allocation.**

Ms. Pearce requested a liquidity review on an annual basis be provided to the Committee. Mr. Jeffrey indicated he is happy to continue with the motion since it is not irrevocable.

**ITEM 5: NEPC Management Fee Study**

NEPC led the Committee in a discussion of the *Manager Fee Review* document. Mr. Moseley reviewed with the Committee the reasons for doing a fee study and how negotiations are handled.

**ITEM 6: Economic and Financial Market Dashboard**

The Committee discussed the list of positive and negative factors. The Committee set its 12-month forward expectation for U.S. GDP at 2.0% and for CPI at 2.5%.

**ITEM 7: Other or New Business**

Ms. Pearce indicated they are in the process of preparing an RFP for a stable value fund for the 457 Deferred Compensation Plan.

**ITEM 8: Adjournment**

**The Committee adjourned at 2:10 p.m.**

Respectfully submitted,

Monica Chiren, Clerk